

VZCZCXRO3971  
RR RUEHIC  
DE RUEHCP #0575 3571133  
ZNR UUUUU ZZH  
R 231133Z DEC 09  
FM AMEMBASSY COPENHAGEN  
TO RUEHC/SECSTATE WASHDC 5373  
INFO RUCNMEM/EU MEMBER STATES COLLECTIVE  
RUEATRS/DEPT OF TREASURY WASHDC  
RUCPDOC/DEPT OF COMMERCE WASHDC

UNCLAS COPENHAGEN 000575

SIPDIS

STATE FOR EEB/IFD/OMA, EEB/TPP/ABT, EUR/NB  
TREASURY FOR DAVID WRIGHT  
COMMERCE FOR PAUL DACHER

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [PGOV](#) [DA](#)

SUBJECT: FINANCE MINISTER CAUTIOUSLY OPTIMISTIC ON ECONOMY

**¶1.** SUMMARY: Danish Finance Minister Claus Hjort Frederiksen gave a cautiously optimistic read-out of the Danish economy in a recent gathering with the local diplomatic corps. Though Denmark has been affected by the global economic crisis, Frederiksen said the impact had been diminished by the fact that Denmark had been outperforming its neighbors in the run-up to the crisis. He asserted that the Danish Government's reply to the crisis had been appropriate, swift, substantial, and temporary. Response measures have turned the 2008 budget surplus of about 2% of GDP into a projected deficit of around 5% of GDP in 2010. The Government is concerned that, besides the impact on the budget and Denmark's debt obligations, further fiscal stimulus could delay a necessary adjustment in wages. Because of stimulus spending and decreased revenues, the Ministry's previous goal of achieving structural surpluses between 2011 and 2015 has been revised to restoring fiscal balance or surplus by 2015. END SUMMARY.

**¶2.** Danish Minister of Finance Claus Hjort Frederiksen told diplomatic representatives at an annual Danske Bank-sponsored event that, though challenged by the global economic crisis, Denmark is performing well compared to its neighbors. Denmark actually entered its current slowdown in 2007, but that came on the heels of a series of strong years, therefore the crisis has not been as severe in Denmark as in neighboring countries. Though he expected the recovery here to lag behind neighbors', Frederiksen said increased consumer confidence, a stabilizing housing market, and the predicted pick-up of world trade will result in Danish economic growth in the near future.

**¶3.** Frederiksen repeated several times during his remarks that the Danish government's reply to the crisis had been appropriate, swift, substantial, and temporary. He predicted that the substantial discretionary fiscal measures the Government undertook to dampen the impact of the global downturn, combined with low interest rates, will add to economic activity in 2010 by 4% of GDP and increase employment by 75,000 (2.7%). However, these measures will also have an impact upon the public budget. Automatic stabilizers (Denmark has some of the strongest stabilizers in the OECD, primarily via generous unemployment schemes) will further affect the budget. The short-term developments in public finances will turn the budget surplus of around 2% of GDP in 2008 into a deficit of around 5% of GDP in 2010.

**¶4.** The Minister assured the audience that the government is monitoring the situation closely and will not hesitate to act, should further action be needed. The Government is concerned though that, besides the impact on the budget and Denmark's debt obligations, further fiscal stimulus could delay a necessary adjustment in wages. Denmark has experienced considerably higher wage increases than its primary trading partners in recent years, which, combined with slow productivity growth and an appreciation of the Danish Krone (plural: Kroner), has weakened the Danish exporting businesses. Because it will exceed the EU's 3% public deficit ceiling, the Government is also expecting to come under the

"excessive deficit procedure" with ensuing recommendations for fiscal consolidation and a deadline for bringing the deficit below the reference value stated in the EU Stability and Growth Pact.

¶5. Finally the Minister touched on the long-term developments of public finances. Denmark faces a significant change in demographic composition that will lead to increased expenditures for health and elderly care. In addition, Denmark is facing less revenue from the North Sea, as reserves of oil and gas are gradually depleted. The Government's 2015 plan for solidifying fiscal balance has been undercut by the economic downturn. The previous goal of achieving structural surpluses between 2011 and 2015 has been revised to restoring fiscal balance or surplus by 2015. The long-term sustainability of public finances will rely on structural reforms -- some already in place -- including an adjustment of the retirement age and eligibility for public pension schemes. Other reforms include the fully-financed tax reform adopted in March 2009. Frederiksen also highlighted the newly established Growth Forum, aimed at giving the government fresh ideas for improving productivity and GDP growth through education, research and development, innovation and entrepreneurship reforms.

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